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Managing Editor

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STATE SOCIETY ACTIVITIES

Calendar of Events

November 5—Regular Meeting of the Board of Directors.

November 9—7:30 P.M. Society Meeting. Subject: **State Taxation**. Location: Waldorf-Astoria Hotel, Lexington Avenue and 49th Street, New York City.

December 10—Regular Meeting of the Board of Directors.

December 14—Society Meeting. Subject: **Federal Taxation**. Location: Waldorf-Astoria Hotel, Lexington Avenue and 49th Street, New York City.

Wartime Problems Release No. 19

Release No. 19 sent to the membership on October 27, 1942, by the Society's Committee on Wartime Problems discussed the problem of the scarcity in staff assistants and what can be done to relieve the situation. The Committee has already taken steps towards easing the situation by forming a placement service, advocating the engagement of women accountants, fostering the inauguration of special courses in educational institutions to "grade up" men and women interested in accounting but not qualified to take positions, stimulating the borrowing of accountants from other members in times when they might otherwise be temporarily unassigned, emphasizing that interim examinations should be extended to include the maximum work possible to be covered at other than the year-end, and suggesting and publicizing the advantages of enterprises adopting their natural business year as their fiscal closing dates.

Further suggestions were outlined

in this release, and it was stated that if the practitioner is unable to secure the necessary personnel, he may have to install a system of priorities in his own office by giving his attention first to engagements tied in with the war effort and then to less important work to the extent that he is able, but he should not spread himself so thin that the extent and quality of his work might fall below proper professional standards.

With the pending legislation toward man-power control, it is possible that in the near future the test of what part of an accountant's practice is war essential and what staff he will be able to retain will be suggested to him or decided for him by some war agency.

New Society Director

To fill the vacancy on the Society's Board of Directors caused by the death of Francis P. Byerly, former Director, the Board at its meeting on November 5, 1942, chose Ernest O. Lothrop to serve as a Director for the current Society year.

October Meeting

On the evening of October 5, 1942, the first meeting of the Society year was held at the Waldorf-Astoria Hotel. The occasion witnessed the formal inauguration of J. Arthur Marvin as president of the Society for the coming year to succeed Andrew Stewart, retiring. Mr. Marvin presented a gavel to past president A. S. Fedde, acting as proxy for Andrew Stewart who retired as president. Mr. Marvin, who is a partner of F. W. LaFrentz & Co., is also Chairman of the Advisory Council of State

Society presidents of the American Institute of Accountants.

The meeting was devoted to the subject of wartime control of prices, and the Society had the pleasure of listening to addresses by Dr. John R. Sly and Dr. Herbert F. Taggart of the OPA, and William W. Werntz, Chief Accountant of the S.E.C. The papers of these speakers are published in this issue.

The Secretary presented for action at the meeting proposed amendment to Paragraph 7 of Article V on Quorums, which amendment was read at the meeting of the Society on May 11th and a copy mailed to the membership with the notice of the October meeting. The proposed amendment was recommitted to the Committee on Amendments to the By-Laws for further consideration.

Meeting on State Taxation

The Society's annual meeting devoted to the subject of New York State taxes was held on the evening of November 9, 1942, at the Waldorf-Astoria Hotel. Members had the pleasure of hearing an address by the Hon. Abbot Low Moffat, Chairman of the Ways and Means Committee of the New York State Assembly, who spoke on "Some Financial Problems Affecting New York State." Mr. Benjamin Harrow presented a paper entitled "Current Decisions and Changes in the State Tax Law," and Mr. John J. Ronan, Administrative Supervisor of the Income Tax Bureau spoke on "Some Aspects of the Unincorporated Business Tax."

James L. Ridgway

James L. Ridgway, senior partner of Patterson & Ridgway, died on October 31, 1942, after a long illness, at the age of 78. Mr. Ridgway, a past Director of the Society, had been a member since 1915, and was also a member of the American Institute

of Accountants, Accountants Club of New York, and the Hotel Accountants Association. He is survived by a daughter, a grandson, and a brother.

The Board of Directors, at its regular meeting on November 5, 1942, adopted the following resolution on the death of Mr. Ridgway:

"Resolved, That in the death of James L. Ridgway, The New York State Society of Certified Public Accountants lost a loyal member who maintained a continuous membership in the Society for a period of twenty-seven years and who served as a Director for two years.

"The Board of Directors of this Society hereby records its sorrow at the death of Mr. Ridgway and its appreciation of his professional spirit and exemplary action in so faithfully serving the Society and his chosen profession.

"The Board of Directors directs that this resolution be incorporated in the minutes of its meeting and that a copy of it be sent to the family of Mr. Ridgway."

Charles A. Daum

Word has just been received by the Society of the death of Ensign Charles A. Daum, U.S.N.R., on February 16, 1942. Ensign Daum, who joined the Society in 1940, was the pilot of a Navy patrol bomber which crashed in the mountains near Buena Vista, Virginia. The plane was returning to its base from a routine flight at the time of the accident. Rear Admiral J. H. Towers, U.S.N., Chief of the Bureau of Aeronautics, said of him, "He had achieved a splendid record in naval aviation and had flown over a thousand hours as a naval aviator." According to the Society's records, Ensign Daum is the first of our members in the service to have died in action. He is survived by his mother, Mrs. J. F. Murphy.

ANNOUNCEMENT OF PRIZE ESSAY CONTEST

The Board of Directors of the Society has authorized the Committee on Publications to conduct a prize essay contest, the essays to be on a subject of interest to the accounting profession and suitable for publication in the New York Certified Public Accountant. Prizes in the amount of \$150 for first prize, \$100 for second prize, and \$50 for third prize are offered.

The general rules of the contest are as follows:

All manuscripts shall be typed in duplicate on 8½ x 11 stationery, double or triple space typing.



The name of the individual submitting the paper shall not appear on same, nor should there be any other means of identifying the manuscripts, which should be accompanied by a covering letter giving the contestant's name and address and firm connection.



When submitted to the judges, each manuscript will be given a key number of identification.



Manuscripts should be forwarded to The Managing Editor of the New York Certified Public Accountant, 15 East 41st Street, New York City, on or before June 1, 1943. Awards will be announced as soon thereafter as possible.



All papers submitted shall become the property of the New York State Society of Certified Public Accountants and shall be available for publication in the New York Certified Public Accountant. The decision of the judges shall be final as to what papers may be entitled to prizes.

PROFESSIONAL COMMENT

War Department Ruling

The Securities and Exchange Commission desires to call to your attention an announcement by the War Department, Bureau of Public Relations, on October 28, 1942, relating to the publication of reports indicating production rates. The text of the War Department's statement follows:

"Emphasizing that inadvertent disclosure of military information can be as harmful as the deliberate giving of aid to the enemy, the War Department announced today that companies engaged in war production are enjoined from publishing detailed operating statements or other reports that would indicate in any way the rates of production, or the total production, of a particular product used in the prosecution of the war, or war production processes.

"It is desired that interference with normal financial procedures be held to a minimum, and that information that would normally be available will continue to be complete enough so that investors, financial institutions and stock exchanges will not be unduly impeded.

"In general, the following procedures are recommended:

"Sales and costs of sales should be omitted when they would disclose production rates or totals of specific war items.

"Sales of war items should be grouped in one gross sum.

"Inventories of raw materials, materials in process and finished products should be grouped together.

"Terms of war contracts should not be given.

"Advances on contracts should be stated in one amount.

"Production processes and new developments which might affect the conduct of the war should not be disclosed.

"It is not contemplated that a detailed set of rules and regulations be issued covering all contingencies, since individual company executives, by bearing in mind the basic principles involved and the illustrations given above, will be able to judge the type and scope of information that should be withheld from publication.

"Where it is necessary to omit from or summarize in financial statements and reports information required to be submitted to the Securities and Exchange Commission, such omitted information should be filed with the Commission under separate confidential cover pursuant to Rule 171 under the Securities Act of 1933, Rule X-6 under the Securities Exchange Act of 1934, or Rule U-105 under the Public Utility Holding Company Act of 1935. The advice of the Commission will be available with respect to problems arising in connection with financial statements and reports required to be filed with it. The Commission is working in close cooperation with the Bureau of Public Relations of the War Department with regard to these questions.

"The Espionage Act (Act of June 15, 1917, as amended March 25, 1940) makes punishable the giving or obtaining of information with intent or reason to believe that it is to be used to the injury of the United States, and all business executives concerned are urged to study the detailed provisions of this act so as to avoid its inadvertent violations."

Executive Bonuses

The decision of the United States District Court (N.Y., S.D. re *Augusta Winkelman vs. General Motors Corporation*) directed executives to reimburse the company for certain bonuses received during the past several years. Of particular interest is the court's consideration of the question of whether bonus should be deducted as an expense in arriving at the amount of net profits upon which bonus is calculated.

Limitations on Wages and Salaries

The much discussed "limitation of \$25,000 on salaries, etc." is not founded upon the Internal Revenue Code or the Revenue Act of 1942. The President's Executive Order dated October 3, 1942 stabilizing the cost of living is based upon "An Act to amend the Emergency Price Control Act of 1942, to aid in preventing inflation and for other purposes." The President's order provides among other things that: "No salary shall be authorized *** to the extent that it exceeds \$25,000 after the payment of taxes allocable to the sum in excess of \$25,000. Provided, however, that the regulations (covering this Executive Order) shall make due allowance for the payment of life insurance premiums on policies heretofore issued, and requirements on fixed obligations heretofore incurred, and shall make provision to prevent undue hardship." Any salary paid in excess of this amount is not to be confiscated from the recipient but, on the other hand, is not to be allowed as a salary deduction to the employer for income tax and other purposes.

It is interesting to note that this \$25,000 limitation affects earned income only and does not limit income from other sources, such as dividends, interest, etc.

Regulations of the Economic Stabilization Director were issued October

27, 1942. These will probably be required to be amplified. There has been considerable comment as to whether they will be sustained.

Priorities Handbook

The War Production Board has issued an 84 page booklet entitled "Priorities and Industry," which provides a concise and well-organized presentation of the priorities system. The booklet contains a description of the overall pattern of priorities; a discussion of the control of materials by priorities, including consideration of M, E, L and S orders; a description of how priority assistance is granted under PRP—by individual ratings and limited blanket ratings; the use of priorities for maintenance supplies, construction, capital equipment, wholesalers and retailers and export; and a statement of "What You Should Know to Obtain Priorities Assistance." Included in four appendices are (1) a list of priorities field offices with addresses, and names of executives and managers; (2) a statement of delegation of authority; (3) texts of the more important priority regulations and summaries of the others; and (4) the directive for wartime construction. Copies can be obtained by writing to the War Production Board, Washington, D. C.

Inventory Control Methods in Grocery Wholesaling

United States Department of Commerce report on "Effective Grocery Wholesaling," which may be obtained from the Superintendent of Documents, contains some 240 pages. The accounting records or the statistical data on operations gathered in the field work were taken directly from the wholesalers' books. The factual operating record is thus limited in each case to the actual statistical and accounting data which the wholesaler maintained for his

own use. Furthermore, quantitative data are not uniform in all respects but vary from house to house with differences in accounting methods. The survey is divided into two main divisions—one on the merchandising function, covering among other things brand policy and operating-cost differences by brands and comparative expenses, price policy, salesmen's compensation methods, etc. The second division covers order routine, warehouse and branch-house operation, delivery and delivery cost records, inventory control methods and methods of accounting for sales, margins, and expense control. The study also presents methods of allocating costs, tables on various operating and statistical data, and suggested forms for accumulating accounting, operating and other data.

Tax Notes in Balance Sheet

A circular letter issued by the "United States Treasury Victory Fund Committee, Second Federal

Reserve District, Federal Reserve Bank of New York" contains interesting information as to tax savings notes including graphs. It is interesting to note that the covering letter contains the following statement:

"It is our understanding that the Committee on Accounting Procedure of the American Institute of Accountants stated in January 1942 that, where a corporation purchases Tax Savings Notes with the intention of using them in payment of Federal income and excess profits taxes, it is good accounting practice that the notes be shown as a deduction from the accrued liability for such taxes in the current liability section of the balance sheet, provided the full amount of the accrued liability is also shown. Therefore such a corporation holding tax savings notes, whose statement is prepared in this manner, may show an improved ratio of current assets to current liabilities compared with a corporation which holds cash against its tax liability."

Somewhere . . .

an American sailor's life has just been saved by
a transfusion of blood, collected by the Red
Cross and put on his ship by the Red Cross.
Remember this when you're asked to give or
give again to the RED CROSS WAR FUND

Accounting and Cost Problems under Price Control Regulations

By HERBERT F. TAGGART, C.P.A.

IN the time allotted to me I want to outline something of what price control means to the accountant in the way of added duties and responsibilities, and then to comment on certain OPA policies as they particularly affect the accountant.

For the first topic, accountants may be divided into three categories, namely, the accountants working for OPA, of whom there are at present about 250; the privately employed accountants, on the staffs of industrial and commercial companies; and the public accountants. For the OPA accountants, price control involves the making of cost and financial investigations of several categories. The first is the type of industry-wide study which normally precedes the establishment or amendment of a maximum price regulation. Such studies are particularly necessary for making sensible and equitable dollars-and-cents regulations, but they are useful also in connection with the so-called "freeze" regulations—notably in connection with the rent regulations, which are all of this type. Many such studies have been made, and they are continuing to be a major activity of the OPA Accounting Staff. In these studies we have freely drawn upon the services of the accounting staffs of the Federal Trade Commission and the Tariff Commission, both agencies being old hands at making industry accounting surveys.

The second major job for OPA accountants has to do with the affairs of individual companies rather than with industries. Petitions for excep-

tion and adjustment, hardship cases, protests, and special rulings on the pricing of new or substantially altered goods, all may require detailed accounting investigations. Frequently these studies involve visits to plants and offices, for making detailed checks on operating conditions and the adequacy of accounting records. Always they require analysis of submitted figures and reports on the reliability and significance of submitted data.

A third job for accountants in OPA is to assist the Enforcement Division of the General Counsel's Office in running down violators and measuring violations. This job we like the least, since it ought to be unnecessary, but unfortunately it is likely to occupy an increasing portion of our energies.

One of the minor duties of the Accounting Division is auditing claims for compensatory adjustments on hard fuel shipped into the New York and New England areas. The enforced change from water to rail shipment entails additional costs which are being met by the RFC. We certify the amounts to be paid. As time goes on, this sort of thing may occupy still more of our time.

Another minor job which may become more important as time goes on consists of assisting the Rationing Department and the local War Price and Rationing Boards to install and maintain accounting controls over ration books, coupons, and certificates.

For the industrial accountant, price control entails much additional work in the preparation of the records and

Presented before the October 5, 1942, meeting of the Society, at the Waldorf-Astoria Hotel, New York.

reports required by many of the regulations. Upon him falls the burden of furnishing the information necessary for OPA's numerous studies of prices, production, costs, and other factors necessary for intelligent control of prices. The industrial accountant must prepare the data needed to support claims for adjustment and protests and the pricing of new products.

Upon his shoulders rests in very large part the responsibility for keeping his employer in the straight and narrow way of compliance with price regulations. This is particularly true of freeze and formula regulations, where accounting records are the sole means of determining the seller's compliance. Since many regulations place a compliance burden on the buyer, as well as on the seller, the industrial accountant must lend substantial aid in carrying out this obligation. In fact, the role of the industrial accountant as a mentor of compliance can hardly be overestimated.

So important are the record-keeping and reporting functions that they deserve a somewhat more detailed examination. Specific, or dollars-and-cents regulations ordinarily involve relatively little in the way of regular record-keeping and reporting, but may require a good bit of effort to furnish the economic data necessary to substantiate such regulations. For the benefit of freezing regulations, the industrial accountant must ascertain what the prices were in the base period or on the base date and make a record of them and, usually, file a report with OPA showing what they were. Frequently this involves a good deal of delving into records of past periods and a considerable amount of mechanical work in preparing lists for posting and reporting.

Formula regulations take on a distinctly accounting aspect. They are usually couched in terms of costs and margins, and frequently assume the

keeping of fairly elaborate cost records and the normal use of scientific pricing methods. Evidently, in establishing a formula regulation, it is incumbent upon OPA to make sure that the formula fits the trade usages and operating techniques of the particular industry, that it produces an equitable result to the seller without containing the germ of inflationary increases, and that its language is sufficiently definite to produce only one result when applied to a given set of facts.

It is not necessary, on the other hand, that it conform to the actual pricing method of all, or any substantial part of the members of an industry. Certain OPA formula regulations have been criticized for not being realistic, because, it is said, nobody actually prices that way. In answer to this criticism two or three things must be kept in mind. In the first place, it must frankly be recognized that price control is regimentation and must be implemented by uniformly applicable rules. In the second place, the rules must be as concrete and objective as possible, in order to arrive at a determinable result. Actual pricing methods follow no rules and are frequently based on nothing more objective than the seller's hunch. Finally, it must be observed that OPA regulations establish only maximum prices, and the seller's own pricing method is entirely legal and proper, as long as it does not produce prices in excess of those ascertained by the formula.

The fact that OPA regulations deal with maxima and do not fix rigid prices cannot be emphasized too much. You have all read the story of the patriotic father of 12 children who came into town and bought 70 pounds of sugar on coupon No. 8. "I can't afford this," he said, "and we don't need the sugar, but if it will help win the war, I want to do my part." You probably have not heard about the laundry to which an

overly sympathetic OPA Regional Office granted an excessive price increase. On putting the new prices into effect, this laundry found its trade undergoing a severe shrinkage, and it has hastened to retract and go back part way, at least, to its former level of prices.

Certain formula schedules have attempted to conform as far as possible to the seller's own varied practices. For example, No. 136, covering machines and parts, provides for the application of "the price-determining method which was in use on October 1, 1941, applying the overhead rate, machine-hour rates, if any, or other bases of computation which were in use on that date." Recently we have been sending accountants out to check up on these individual pricing methods.

They have brought back much interesting information, and some indications that this particular regulation is not unduly restrictive, at least in cases where the seller's October 1 formula was fairly liberal. One formula is as follows:

- (1) Material at October 1, 1941, actual cost plus 5% for material handling cost;
- (2) 15% of material and material handling cost (Item 1) for defective material, spoilage, price increases, etc.;
- (3) Labor at estimated or actual hours at October 1, 1941, wage rate;
- (4) Factory and General Overhead at 200% of labor cost;
- (5) 10% of labor and overhead (Items 3 and 4) for estimated overtime cost;
- (6) 20% of labor, overhead, and overtime cost (Items 3 to 5 inclusive) for general contingencies;
- (7) Mark-up of 40% of total cost (Items 1 to 6 inclusive).

All of these record-keeping, reporting, and disclosure requirements

necessitated by price control add up to a considerable burden on accounting staffs already squeezed between expanding business activity and the demands of Selective Service. As a result, a good deal of effort has been expended in attempting to reduce these requirements to the lowest possible level compatible with effective operation of OPA functions.

There can be no honest difference of opinion about OPA's need for substantial quantities of information. Charged by Congress with the tremendous task of administering economic controls more widespread than ever before attempted, we have no choice but to seek the information necessary to carry out our job. And the only place to get most of it is directly from original sources. That means the buyers and sellers of commodities and services. There can be and has been honest argument about both the kinds and the quantity of information, and there has been much of this kind of discussion within the Office itself. As many of you probably know, the Bureau of the Budget passes on every report form which issues from any governmental agency, and these forms have to survive an exceedingly careful scrutiny to make sure that they are necessary and that they are so devised as to obtain the desired information in the most economical manner.

The Bureau of the Budget is in process of establishing a system of approval numbers which, after January 1, 1943, must appear on all report forms, and without which business men can with impunity ignore any questionnaire.

Within OPA we have our own little "Bureau of the Budget" which does for us what the Bureau is supposed to do for the Government as a whole. That this organization in OPA is doing a good job is well attested by the fact that it is without any competition as the unpopularity champion of the Office. You may be

assured, therefore, that the questionnaires and report forms which emanate from OPA are not the impulsive brain-children of economists with time hanging heavy on their hands. They are seriously intended to solve specific problems, and they have passed through at least two fires of critical examination by unbiased and not too gullible experts.

The concern of the public accountant with price control is substantially less than that of the industrial accountant, but it is by no means negligible. The public accountant must supplement the industrial accountant in preparing many of the questionnaires and reports. A particular example are the OPA financial reports, Forms A and B. While these reports are not required to be certified, they are in many cases prepared by the respondent's public auditors. Public accountants also frequently prepare exhibits to support petitions and protests and represent the petitioners or protestants in their dealings with OPA. As part of their function as general business advisors, public accountants are often called upon to help interpret price regulation requirements and to assist in devising methods to assure compliance.

Public accountants are being used to audit the excess costs involved in rail transportation of petroleum products to the East Coast and other costs resulting from the dislocation of petroleum markets. It is my personal hope to be able to make still greater use of public accountants for similar purposes.

As a more direct contribution to the success of price control, both public and industrial accountants have responded in considerable numbers to the suggestion that accountants would make ideal members of War, Price and Rationing Boards. How many such appointments have been made I cannot say, but the suggestion was warmly welcomed by

OPA Regional Administrators and State Directors. In addition to those accountants who have become members of the Boards, many accountants have volunteered their services as part-time help during periods of rationing registration and at other times.

The special fitness of accountants to serve on War Price and Rationing Boards is obvious. They are familiar with business procedures and practices. They are accustomed to looking facts in the face without bias or prejudice. They can be counted upon to be impartial. They have a lively appreciation of the dangers of inflation. Their familiarity with record-keeping techniques and their appreciation of the necessity for rigid controls is an invaluable asset to the Boards, whose success in operating the rationing programs will be largely dependent on the care which surrounds the issuance of ration books and certificates. It is my hope that this type of contribution by accountants can be substantially expanded.

One question prominently in the minds of all accountants is, what is the attitude of OPA toward costs and profits? As to costs, OPA's attitude can be summarized in the same way as Cal Coolidge summarized the attitude of his preacher toward sin. We're agin em! This attitude has guided OPA activities from our earliest beginnings. It is evidenced by the fact that we started our issuance of price schedules by concentrating on raw materials and other cost factors, on the theory that if we could control the costs, the prices of finished products would control themselves. We have consistently supported all efforts to stabilize wages and farm prices. Although we have no direct control over public utility and transportation rates, we have taken strong stands wherever possible in opposition to rate changes which would in-

crease these factors of cost. Our Standards Division is interested primarily in maintaining quality for the benefit of the consumer, but its work in the fields of standardization and simplification is in part aimed at reducing costs. Currently Mr. Henderson is promoting a program for streamlining retail operations and cutting out unnecessary frills for the purpose of enabling retailers to combat the squeeze resulting from the General Maximum Price Regulation.

In making determinations of cost for guidance in its pricing policies, OPA's concept of costs is a fairly simple one—even to the point of being naive. We take costs pretty much as we find them, and as our "clients" present them to us. We have few fixed ideas as to what should and what should not be included in cost or how costs should be computed. On the other hand, we try not to carry naivete to an extreme. When an official of a small company who, before 1941, never received any salary, is credited on the books (not paid) with \$25,000 during that year, we go so far as to make inquiry as to why his services have suddenly become so valuable. When a company's advertising appropriation increases more than 300% in a single year, and inquiry discloses that the cause is a trade promotional program on a product which can't be made any more, we are not particularly inclined to raise prices to cover increased advertising costs. When a company whose rate of operations has doubled or trebled continues to use the same old burden rates, we are likely to suggest that the unit costs thus arrived at are a little high. We don't accept the repayment of indebtedness as a cost, or taxes based on net income, or the recoupment of losses of past years, or the charges made to establish vaguely designated reserves for dimly foreseen contingencies. Speaking of reserves, we were more than a little

surprised to discover that one company with a half million dollar inventory had a reserve for inventory decline of \$800,000.

If we did have any preconceived notions about the requirements of a good cost accounting system, we should have long since had them knocked out by our actual experiences. One of my assistants came back from one of his trips with a scornful story about cost records kept on loose scraps of paper in the pigeonholes of an old-fashioned roll-top desk. He was amazed to find that the company paid good money to an accountant who could not devise a scheme any better than that. On his next trip he visited a plant in the same industry which had the most modern record-keeping system imaginable, complete with all attachments. Its unit product costs were within small fractional percentages of being the same as he had found in the first company.

Our definition of cost is the businessman's definition, and is necessarily adaptable to the degree of accuracy which can be obtained from existing records. For government contracts we are pretty well satisfied with the definition of costs contained in the little green pamphlet issued by the Government Printing Office and familiar to all accountants who have anything to do with cost-plus fixed-fee contracts. In fact, the general principles of cost finding set forth in that green book would go a long way toward fitting most of the costing problems we contend with.

On frequent occasions the OPA has been asked to accept the thesis that wage rate and material price increases automatically mean corresponding unit cost increases in finished product. Certainly no one could deny that such increases in cost factors are important evidence, but they are hardly conclusive. The only conclusive evidence is actual operating experience. In normal

times, of course, wage rate increases and material price increases do not necessarily result in increased product costs and, even if they do, the final result is not necessarily increased prices. If wage rates go up, measures are taken to increase the efficiency of labor, or to cut down on its use. If material prices go up, attention is given to the use of substitutes, or to cutting down on waste and spoilage. If labor and material costs go up, attempts are made to economize on other costs. If total cost increases, it may nevertheless be impossible for trade or competitive reasons to increase prices.

It must be granted that some of the expedients for meeting wage and material increases are not available under current conditions. Nevertheless, it should hardly be conceded that managerial ingenuity is dead. Witness the ingenious devices for getting around price and credit controls and priorities, if you want any evidence on that point. Our own cost investigations are ample to make us a bit reluctant to make too ready concessions as to anticipated cost increases. We have seen, for example, an industry in which wage rates have risen 40%, but labor costs have increased only 20%, and total unit cost has actually declined. On the other hand, we have in our files the case of a company whose wage rates had not advanced at all during the period under investigation, and yet whose labor cost per unit of product had increased more than 30%.

It is only natural that we are more concerned with direct costs than with indirect costs, and with out-of-pocket costs than with those which involve no immediate expenditure. Our primary concern with direct cost is based on two chief considerations: one, that these costs are usually more significant in amount than the others, and, two, that there is less room for argument about their allocation to products and therefore the amounts

involved. Frequently, of course, the direct labor and material costs of a particular product can be ascertained with a sufficient degree of precision without any cost accounting system whatever. An acceptable allocation of indirect costs, on the other hand, requires something, at least, in the way of a cost system. Wherever we find a respectable cost system in operation, we gladly take the figures provided. We have few preconceived ideas as to how costs should be allocated, and seldom try to tell anyone that his cost methods are unacceptable. However, it should be realized that decisions as to price actions are not likely to be based so exclusively on cost considerations that precise methods of allocation would make any difference.

I should not like to convey the impression that even the most clearly proven direct unit cost increases will automatically lead to the granting of higher maximum prices. A number of exceptions should be noted. One is the case in which a company or an industry can readily afford to absorb increases. I shall discuss this in connection with profits. Another is a material cost increase based on illegally high purchase prices. For obvious reasons the OPA limits its consideration of material costs to those which reflect purchase prices no higher than those set by our regulations. A third case is illustrated by the provisions of Maximum Price Regulation No. 178, which bars consideration of wage rate increases incurred after April 27, 1942. That was the date of the President's message on inflation, which put everyone on notice that wages must be stabilized. Presumably from here on out, we shall refuse to recognize any wage increases not sanctioned by the War Labor Board and the Office of Economic Stabilization. Still another example of refusal to recognize direct cost increases is the case in which a company, before the imposi-

tion of price ceilings, paid speculatively excessive prices for commodities with the expectation of being able to resell at equally speculative increases. In effect, the company was betting that the OPA would not establish ceilings in the particular commodity, and it lost.

The interest of OPA in profits is distinctly secondary to its interest in prices. Typically, the question about profits is simply this: Is this company, or this industry, making enough money so that a rather stiff attitude on price increases will not work a hardship? Or, to put it another way, is this company, or this industry, making enough money so that it can reasonably be asked to absorb some cost increases and thus make a contribution to the fight against inflation? The answer to this question obviously requires some standard of profits. To date no rigid standard has been developed, and it is to be doubted if one ever will be. Industry is too complex, economic conditions are too varied, and the factors to be taken into account are too numerous to permit any rigid formula to be followed. Most particularly, there has been no thought at any time that it was desirable to reduce profits to any dead level, such as six per cent on investment.

The Emergency Price Control Act directs the Administrator to take account of "general increases and decreases in profits," but establishes no precise standards for doing so. Emphasis on "increases and decreases" implies some comparison with prior periods, but the prior periods are not specified, and we have not attempted to supply the lack in any definitive way. In many cases we compare current profits with those of the four years 1936-1939, making due allowances for increases or decreases in investment. Frequently, however, comparisons take in longer or shorter periods, and in no case are decisions based exclu-

sively on profit considerations or on the idea that we can predict costs and profits with any degree of precision. Contained in the Executive Order establishing the Office of Economic Stabilization is a directive requiring the Price Administrator to give attention to preventing "profits which in his judgment are unreasonable or exorbitant." How much effect this directive may have on OPA operations is impossible to predict. It would seem to open the way, however, to a direct attack on situations in which profits have increased beyond reason.

In spite of the lack of a precise profit standard, many cases arise in which we are sure that profits are excessive. After the imposition of one ceiling a company came in with a petition for permission to continue to charge its previous prices, which were higher than the ceiling. Investigation brought out these facts: The company was capitalized at \$75,000. As of December 31, 1940, its net worth was \$125,000. During 1941 it made \$3,500,000 of sales and realized a net profit of \$550,000 before taxes, but after paying \$315,000 in salaries to three company officers. And the most profitable items of business were diverted to a partnership consisting of the same officers. The petition was denied.

There has been some discussion of the fact that we are interested in overall profits, as well as in profits on a particular commodity. A considerable number of correspondents with respect to Forms A and B have told us that we could not possibly get any good out of the profit figures shown on these reports, since these profits are on all lines of business, and are not confined to any particular commodity. Contrary to the implications of these correspondents, we are well aware of the fact that the net profit of a company is the algebraic sum of all the net profits and losses on every commodity it handles. How-

ever, we doubt if, in the majority of cases, the net profits or losses on the individual commodities can be established with such precision that we can rely on commodity profit and loss statements to the exclusion of any necessity of looking at the overall picture. Cost accounting methods simply are not as reliable as that. It is only in the overall profit and loss statement that all of the conditions and influences and transactions that affect a company's operations finally come home to roost. Only in the general profit and loss statement are the effect of opinion and estimate reduced to their lowest terms. We are not in a position to compete successfully with a company's accountants as to fine but important points in the allocation of joint costs. The company, on the other hand, is at some disadvantage as compared to ourselves if, in spite of all fears about what OPA and WPB and Selective Service is going to do, and after making all allowances for accelerated depreciation and curtailed volume, and every other contingency, the profit and loss statement stubbornly ends up with a healthy black figure. Like the traditional salesman's expense account, we fear that the commodity or departmental profit and loss statement may be the repository for fancy, as well as fact, but the company operating statement, especially if it covers a full year and is tied into balance sheets at both ends, is something we can tie to.

Broadly speaking, then (and to this statement there are many exceptions), we are not likely to take very seriously a plea of hardship by a company whose overall profit position is good, if the price complained of appears to cover all directly assignable costs with something to spare. Under such circumstances elaborately worked out allocations of joint cost factors, after the fashion of

Robinson-Patman cases, are apt to be a waste of time.

The task which has been entrusted to OPA is without precedent in history. Its size and its complexity would paralyze us with fear if we had time to think about them. Of course we cannot do the job without the whole-hearted cooperation of nearly all of the 130,000,000 people with whose best interests we are concerned. Obviously the cooperation of some groups is more important than that of others. The accounting profession is one of these key groups. What we need from you is a little patience, a little tolerance, and a great deal of willingness to go along, and to advise your clients and employers to go along.

A Gallup poll on the general objectives of the inflation control program and of OPA's part in that program would doubtless yield a tremendous majority in favor. The broad objectives cannot be reached, however, unless the individual requirements are complied with.

Doubtless all of you could lay out better plans and set up better machinery for price control than we have done. The State Street quarterback and the arm-chair general are well-known American phenomena. May their tribe never decrease! However, time spent in an earnest endeavor to play the game according to such rules as there are will go much farther toward winning the war than will complaining about the rules or taking the lofty attitude that they are silly and should be ignored.

Doubtless all of you could take almost any regulation that has yet been issued and, as the saying goes, "drive a team of horses through it." Hitler would certainly approve of that. Isn't there greater satisfaction, though, in foregoing that petty triumph and trying, instead, to comply with the spirit of the regulation, no matter how faulty its language may be?

It should hardly need argument to persuade accountants to get wholeheartedly behind the anti-inflation program. Accountants are traditionally on the side of conservatism and economy. Inflation is the opposite of both. Inflation induces a reckless waste of resources; it negates all the arguments for controlling expenses and exercising effective management; it necessitates the paying of high taxes on illusory profits; it brings in

its wake ruin and bankruptcy. What is more vitally important to us as a nation, it severely handicaps the war effort if, indeed, it does not lose the war. In this connection it is interesting, and encouraging, to note that Doctor Goebels recently entitled one of his propaganda broadcasts to the United States "Henderson's Hopeless Fight." If we have succeeded enough to command such attention, we must be making some progress.

**HAVE YOU MADE YOUR CONTRIBUTION TO
THE AMERICAN RED CROSS
WAR FUND?**

Operational Problems of the OPA

By JOHN F. SLY

I WANT to apologize to you tonight for not having a formal paper to make part of a permanent record. You will have to put it down as one of the war casualties and also as part of my innate reluctance to add another paper to the files of OPA. I notice on the program, moreover, that my subject is "to be announced later"—which is very much in tune with OPA policy, as I am sure that all you gentlemen must know.

I have chosen a topic tonight, gentlemen, that is a little unusual from an OPA speaker. I chose it for these reasons: in the first place, it is the one I know the most about because, not being a price economist, I am placed in the OPA merely as an operator; and, secondly, because I know that you, in your business, come in contact with the same clients that come in contact with me. I would like, therefore, to take this opportunity to present to you some of my problems as an OPA administrator, so that you can perhaps soften my position with my clients as well as yours.

A few days ago a distinguished merchandising man was in my office. I have known him for a good many years, and I thought I could find out what he thought about price administration, so I said to him:

"Joe, how's the Office of Price Administration affecting your business?" and he said:

"Well, it's affecting me very much indeed; but I don't know exactly how to answer your question because I don't know how it's affecting it. I would like to tell you a story which will perhaps clarify my position a little better." He said: "A

distinguished member of the Gospel had a parrot that had a very bad habit of going into a long string of profanity whenever the minister had company. A friend said, 'The next time he does that, grab him off his perch, swing him around your head, place him back on his perch, and he'll never do it again'.

"The occasion arose the next day when the minister, in the presence of one of his distinguished visitors, was embarrassed by the profane remarks of his parrot, and he said: 'Just a moment; I know how to take care of that,' and he seized the bird, tore it from its perch and swung it violently around his head. The parrot, however, upon being replaced on its perch, remarked raucously, 'Cheeerist, what a breeze!'

Now I am quite sure many of our clients in the OPA feel that way about it; but I want to talk tonight about what the operator in the Office of Price Administration has to face in giving effect to an extremely complicated price policy.

If you will let me go back for just a few months; because, before understanding an operation, it is necessary to know something of what that operation purports to do. It would be easy for me to tell you that the Office of Price Administration is engaged in controlling prices; but there were—and still are—factors in that purpose that made it more difficult than it sounds.

In the first place, we are not only controlling prices in the sense that we are keeping prices down and preventing inflationary rises, but we are trying to do two other things: to keep essential goods flowing; and

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keep, as far as we can, competitive conditions on an even keel.

Now those two objectives introduce factors that greatly complicate the process but, at the same time, in our thinking, protect the whole economy.

There are many ways of controlling prices with these objectives in view. The Office of Price Administration, in its history, has developed two ways. In the first place, it attempted, through a group of what is called "Commodity Schedules," to seek certain commodities and, through a formula or a "freeze," place a price upon them. This was the history of price administration until May of this year, at which time some 60% of our wholesale and manufacturing commodities were under that kind of a ceiling, and up until that time the operation was almost wholly at the wholesale and manufacturing level.

In May, the OPA undertook a second step emphasizing the retail field and, under the General Maximum Price Regulation, attempted to place a ceiling on practically all commodities sold at retail and all commodities sold at wholesale, and manufacturing, that were not covered by its former schedules. This was done by taking March, 1942, as a base period and merely providing that all goods should be priced as sold and delivered in March. As you all know, it was not quite as simple as that; but, in its essentials, that was what was done.

From the operational standpoint that step had great significance. For the first time, the OPA became a full-fledged operating unit covering practically the whole field of production and distribution. The old schedules were a sample operation compared to the retail order, and it was necessary to move from a limited undertaking into an undertaking that required a large and diverse operational group.

We all know that, in establishing an operation, there are three major factors to be considered. One is personnel, one is lines of authority, and the third is a definition of functions.

Now a personnel that is equipped to determine price policy is not necessarily a personnel equipped to carry on an operation; and the transition was a difficult one. It is a good deal as if the men who have drawn your blueprints for a large-scale undertaking are the same ones you put into your factories to operate your machines; and when you find difficulties in obtaining personnel to fit your operations, your task becomes first of all an educational one.

It isn't as simple as just having a budget and hiring people. You all know an operation doesn't develop until there has been some actual experience in carrying out the first operation. That was the situation we faced in May: a very large recruiting program of a different type of personnel. It moreover required that we place opposite our commodity experts a group of retail merchandising men. There is just as much difference between their points of view as there is between a lawyer and a price economist (which is considerable), or between an accountant and a statistician (which is more considerable), or between a statistician and a mathematician (which is very considerable, indeed); and when you put them all together and try to get them to see the same problem from the same angle, it is much more than a matter of a few weeks' effort.

Lines of authority is another thing that troubled us. On policy matters the administrator arranges his specialists in separate groups and each group is responsible for policy formation within its field. There is a legal staff, a pricing staff, and an accounting staff, and they bring their disciplines to bear on the policy. But on an operating level the matter is differ-

ent. Here it is necessary to bring these people together to work out a defined operation under the customary administrative controls.

Formerly, the Office of Price Administration was primarily a policy unit, and it was always the policy (and a wise one) to keep policy centralized in Washington. It became necessary, however, in the field, to decentralize operations and, in untangling those relations, there were all kinds of questions of personnel and structure and jurisdiction.

Now there is another thing that I wish to explain, as an operator in government for the first time: that government operations and business operations are very different things indeed. In the first place, I want to point this out: that business is nearly always a self-contained operation, and government is not. That is, in business all units are responsible to a single head—a board of directors hires a group of operators who, in turn, hire a group of foremen who, in turn, hire technicians, and they all operate as a single unit; but in a government operation that is not always the case. What happens is that a price administrator may be allowed to hire price men, but he will find himself surrounded by a group of people not always on his staff but put there to assist him. He will find accountants, lawyers, newspaper men, and statisticians, who belong to other organizations and who are loaned to him for the time being to help him carry on functions but over whom he has no direct responsibility. Now it works out much better than it sounds, but nevertheless there is always a certain amount of friction in

attempting to function when only one-third of the personnel belongs to you. But, that is the way the government works.

Business is likewise a self-contained policy unit; government is not—it depends on Civil Service for its personnel, upon Congress for its appropriations, and upon independent government agents for its ancillary staff.

Business survives because it shows an adequate profit margin—a definite, quantitative measure. The government agency survives because it fits the values of the day—a much more nebulous and a much more precarious standard of survival. I can assure you.

Now add to these things an enormous undertaking, perhaps the largest civil administrative undertaking that any country has ever attempted. In its potentialities, in the number of people it touches, in its impact upon the economic life of the country, the OPA operates the largest business that we have. It is only six months old, as an operating unit as I have used the term. It had no precedents to go upon; it had no trained personnel; and it had a very disagreeable job to do. Let me plead with you, therefore, not to judge its efficiency on the standards of a thirty-year-old industry, but rather on the success with which it can lead, cajole, and sometimes threaten large masses of the people as to their respective responsibilities under its orders. If you will apply that standard to the Office of Price Administration, I think you will agree that it has done a fairly good job over the past six months.

Financial Reports to the OPA

By WILLIAM W. WERNTZ

ABOUT six months ago I sought to outline the content and purpose of the new Forms A and B issued by the Office of Price Administration. At that time I sought to outline why OPA felt a rapidly growing need for regular and frequent reports from a large number of American business corporations, why existing sources of information were proving to be inadequate, and how we came to decide upon the particular data to be requested in the forms. I sought also to predict, on the basis of past experience, the more important uses to which the information obtained would be put. It is intended now to report on how this project is progressing, what problems have been encountered, and what changes our experience indicates should be made.

We are in the habit of getting up each week a summary of the work accomplished in each subsection of OPA. As an indication of how the project is progressing, I think it might be interesting to quote that part of the report for the week ending August 29 that relates to the Financial Reporting Branch of the Division of Accounting, which is charged with responsibility for administering this program:

"Aid was extended to representatives of the War Department in procuring financial information from OPA reports.

"The first group of letters to companies delinquent in the filing of financial reports were mailed out, and work continued on the processing of remaining delinquent notices.

"A discussion of the scope and objectives of the financial report-

ing program was held with the Economic Analysis Unit, Iron and Steel Branch.

"A total of 685 reports were received during the week, including 128 reports from companies not previously filing.

"A total of 611 letters were received and 1,355 were disposed of, including 1,070 transmittal letters requiring no reply.

"A Review Unit was set up for the purpose of discussing inaccuracies and inadequacies in reports with respondent companies. During the week, 60 letters were prepared in this connection.

"Tabulations of financial data were completed for selected companies from 1941-42 OPA financial reporting Forms A and B, as follows:

- "Boxboard and paperboard
- Chemicals
- Ferro-alloys
- Fiber insulating board
- Glassine mills
- Heating, boiler repair and conversion parts
- Industrial belting
- Macaroni
- Mining and manufacturing companies renting dwellings to employees
- Offset Printers

"Tabulations of financial data were in process for selected companies from 1941-42 OPA financial reporting Forms A and B, as follows:

- "Dairies
- Importers of nitrate of soda and iodine
- Matches
- Paper products.

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"A total of 1,263 reports were examined during the week, of which 1,102 were found to be acceptable."

That is a survey of one week's formal work. In addition, there is an almost constant stream of requests, by telephone or in person, for special information about particular companies. Perhaps the following resume of what has been accomplished from June 15, when the first reports began coming in, will be of interest to you. After excluding companies which, for one reason or another, were deleted from the original mailing list, there remained about 20,000 active requests to file reports. By September 9, about 33,000 reports had been received, representing some 14,000 companies. In the eight weeks following June 15, 43 tabulations covering 600 companies were prepared in response to special requests by staff groups. Forty-seven requests were outstanding covering 3,400 companies. In addition there were four requests for industry studies involving some 850 companies. In 35 instances the reports had been used as a basis for appeal in the so-called hardship cases. In addition to these formal requests for data, some 225 informal requests were received involving over 3,000 companies. Finally there were a great many requests made for information that could be supplied orally and of which no record was kept. Incidentally, this particular use of the forms is a most significant time saver. A two-minute telephone conversation replaces the time spent in writing a letter and waiting for a reply.

The work so far outlined represents mostly the product of the project. In addition there is of course a very considerable amount of work necessary to control the mailings and mailing lists, to receive, record and examine the forms, and to reply to correspondence. In the twelve

weeks ending on September 1 for example, over 12,000 letters were received which required a reply. Of these something over 10,000 had been answered.

One of the first things that may be asked is whether it is planned to follow any formal deficiency procedure. The answer to that question is, yes. So far, we have not been able to go very far in this direction but in the period following the interim statement for September 30 we plan to get at this task. Probably one in ten reports are filed in a form which cannot be used without some further information or changes. In addition there are a good many instances where we should like to have a company make relatively minor changes in the way in which certain data are presented, or to add a word of explanation as to certain items. Generally speaking, however, we shall not plan to ask for refilings but instead ask that the next filing be prepared on the basis suggested in the deficiency letter.

In the many letters and other inquiries we have received there are certain problems which continually recur. I think it will be of interest to review certain of these common questions and to outline our answers to them:

1. Why is the program placed on a voluntary basis?

It is clearly not because we did not really want the data, for we are convinced of its necessity and this is borne out by the volume of requests we have had from various commodity sections of the OPA for information about groups of companies and about individual companies. Instead our purpose is to avoid the inflexibility and formality that would accompany a mandatory program. Experience has already shown that the original mailing list was by no means perfect. Many of the companies included were found

to be in process of liquidation, operating entirely in foreign countries, engaged in activities not subject to price regulations, of a size so small as to be unrepresentative and so on. Since no formal order to file had been issued, it was a simple matter to withdraw our request. Again some companies wish to file consolidated instead of individual statements. Where after examining the circumstances we agree with the proposal, it is a simple matter to grant the request. Most important of all perhaps is that the danger of running into penalties for inadvertent errors, or inescapable delays in filing is minimized. To sum up, we feel that in the initial stages of a reporting program as extensive as this, we should preserve the maximum of flexibility and a minimum of "red tape." Both objectives are best attained by voluntary submission of data. After the program is well under way and understood or if the response to the voluntary request is unsatisfactory, then will be the time to put the project on a required basis.

2. If a company has received no request to file, should it nevertheless do so, particularly if it is engaged in manufacturing and has assets of over \$250,000?

No. Only companies which actually receive a request to file need do so. Each such request is accompanied by copies of the forms sufficient for filing purposes.

3. Why should companies principally engaged in producing war material under contract directly or indirectly with the United States Government be asked to file these reports?

While certain types of combatant materials are exempted from the operation of the General Maximum Price Regulation by virtue of Supplement No. 4 thereto, this is an administrative, not a statutory, exemption. Information is necessary

to determine how the exemption is operating and whether it should be modified or rescinded. Moreover, the data filed will be useful and are available to the Service Branches charged with the responsibility of renegotiating contracts.

4. If a company which has been notified by letter that the request to file Forms A and B has been withdrawn, nevertheless receives additional copies of Form B for a second or third quarter, does this indicate that a new request is being made?

No; unless the company receives a letter specifically indicating that a new request is being made, the receipt of the additional forms will have been due to a failure to remove the name from the addressograph lists in time to stop the sending out of the additional forms.

5. If a company requested to file has subsidiaries, should separate reports be filed for each subsidiary?

No. Forms A and B need be filed only by the company receiving the request. The financial data, however, should be given both for the parent company individually and for such company and its subsidiaries consolidated. If consolidated statements are not customarily prepared or published, only the individual statements are required.

6. If a parent and one or more of its subsidiaries are each requested to file Forms A and B, what should be done?

Each company in the group receiving a request to file Forms A and B should do so. Individual financial statements for each subsidiary receiving a request should be filed either in the report filed by the subsidiary or in the report filed by its parent.

7. Are publishing companies required to file?

Since Section 302(c)(4) of the Emergency Price Control Act specifically exempts publishers of news-

papers, periodicals, and magazines, such companies need not file. But because such business is often combined with a large amount of job printing and similar work, which is not exempt, the first request to file may have gone out to companies who were true publishers rather than printers. Such companies have on application been excused promptly.

8. How should companies file reports when their fiscal year does not coincide with the calendar year?

Annual and interim reports should be on the fiscal year basis. Companies having a 52-week basis composed of 13 four-week periods may use for interim reports three periods of 12 weeks each and one of 16. The original requests should have been received prior to May 31 and generally speaking the first annual report of a particular company should cover the most recent fiscal year ended prior to May 31, 1942. Some exceptions, notably of wholesalers, have been made so as to permit the first Form A to be filed for a fiscal year ended prior to August 1. In other cases where nine months or more of the current fiscal year have elapsed, it is generally our policy to waive an interim report for the first three months and to ask only for 6 and 9 months' reports. So far we have not been able to make sure that fiscal year companies will receive copies of Forms A and B at the proper times. Instead such companies are included with our regular mailings which are based on a calendar year closing. While steps are being taken to provide for special treatment of fiscal year companies, such companies should, in the meantime, retain the forms as received and file them at the intervals appropriate to their particular closing date.

9. Is it necessary to file interim reports where the business is based on a crop year?

In cases such as raw sugar pro-

ducers, local canners, and others where the active business is compressed into a few months of the year we have waived interim reports. In other cases we have under special circumstances accepted semi-annual reports only. In all other cases we have sought to obtain quarterly data.

10. How can interim reports be prepared if inventories are taken only once each year, and depreciation and taxes computed only on an annual basis?

Current reports are of great importance to us. Price problems are current problems and we feel strongly that in studying problems of price control and in reaching decisions we ought to give consideration not only to the conditions present last year and the year before, as shown in annual reports, but also wherever practicable to the conditions present last month and the month before. It is not at all our intention that a company should necessarily alter its customary accounting procedures so as to take physical inventories quarterly. Instead, we have specifically provided that, where necessary, estimated amounts may be used in interim reports for such items as inventories, taxes, depreciation, and the like. This provision appears on page 11 of the instruction book under the caption E. While interim reports, based in part on estimated amounts, are not as satisfactory for our purposes as when based on final, accurate amounts we feel the saving in time and effort to the reporting company outweighs this disadvantage. If estimated amounts are clearly marked as such, no undue appearance of accuracy will be created, yet the reports will be of great value to us and substantially serve their purpose.

11. Must interim reports include financial data on a consolidated basis?

If consolidated data are filed in the annual report on Form A, they

should be filed in the interim reports also unless it would be impracticable to do so or would substantially delay the filing of the interim report. See instruction B(2) to Item 3 appearing on page 10 of the instruction book.

12. If the accounting system followed is not such as would permit the breakdown of cost of goods sold as required by Schedule IV, what should be done?

Special provision for such situations has been made. First, it should be noted there are several blank lines in the schedule which may be used to set forth cost accumulations peculiar to a particular company. Second, if the company is principally a merchandising company, general instruction (a) on page 17 of Form A permits Schedule IV to be omitted and a simpler form used. Third, if the company has no "cost of sales" as we generally use that term but instead is a service company or a mining company, then general instruction (b) should be followed which permits the company to substitute for Schedule IV a breakdown in reasonable detail of the operating expenses incurred in rendering such services. Fourth, if the company is following a functionalized costing procedure, general instruction (c) may be availed of, the detail of Schedule IV being omitted and the data indicated in instruction (c) substituted therefor. Finally, in interim reports it will be recalled that liberal use may be made of estimates.

I would like to turn next to the future. Experience with the reports received and with the use made of them has indicated that certain changes may be desirable. The first of these deals with Item 5 of Form A and Item 1(d) of Form B which call for certain information as to management salaries. In the present forms there must be given the name, address and remuneration of

each officer, each director, each 10% stockholder, and each other person receiving more than \$20,000 per year. It is now proposed to alter this so as to require that information need be given in the aggregate only for the management as a group. The allocation of such aggregate remuneration to costs, to other income accounts and to other accounts is also requested and may be given on an estimated basis. Finally, a table will be requested to show the number of persons receiving amount within certain designated ranges and the aggregate remuneration paid those falling within each range. The ranges presently proposed are: less than \$5,000; \$5,000 to \$10,000; \$10,000 to \$20,000; \$20,000 to \$50,000; and over \$50,000.

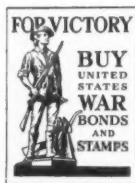
Secondly, it has been found that the restriction of the reporting program to corporations results in the exclusion of important units of certain trades and industries that are organized as partnerships, trusts, or, in a few instances, as sole-proprietorships. We have therefore prepared a supplementary page of instructions which adapt the present forms to use by these unincorporated businesses. It is planned to add to our list the occasional business of this kind where it is needed to make a particular industry coverage satisfactory or representative. The changes are few and concern principally the treatment of the proprietorship section of the balance sheet, the schedule analyzing surplus, and the handling of income taxes.

Finally, we plan to modify the income statement so as to introduce a new section in which will be reflected all provisions for reserves, other than those strictly operating reserves such as for normal depreciation, depletion, repairs and the like. Experience has indicated that in the present form of the profit and loss schedule it is often difficult to isolate for study those reserves

which are provided for special war conditions such as inventory losses, conversion costs, separation allowances and so on. The proposed form will enable these to be clearly set forth and appropriately described.

As I have earlier indicated, the reports now on file are being widely used by the OPA staff and have replaced earlier uncoordinated requests for general financial data. As a matter of fact there has been set up a questionnaire branch whose duty it is to eliminate all unnecessary duplication in reports requested and to ensure that requests for supplementary data are carefully coordinated with the general project. The use of these reports is not confined, however, to the OPA staff. As you know the reports are treated as confidential except where the Administrator determines that in the interests of national defense and security, particular data should be made public. Moreover, to buttress the specific provision in the Emergency Price Control Act there was included in the recent Supplemental Appropriations Act a provision which prohibits disclosure of the data except to the various Service agencies or otherwise according to law. In view

of the current discussion, and even proposed legislation, looking to the avoidance of duplication in reports to various agencies of the Government, this use by various War agencies, which might otherwise have had to obtain substantially the same data by direct and separate request and in the exercise of their own powers, is a most heartening development. I think I may say here that the Form A and B reports so far received are in fact being widely used by accredited War agencies. Thus, we have already under way procedures with the Army and Navy looking to full use of these data by them. We have in process a proposed procedure with respect to use by WPB. Finally, we have had inquiries from several older agencies such as the Federal Trade Commission and the Bureau of Labor Statistics as to the possibility of their also utilizing the data in connection with certain of their economic and statistical series. In view of the provision in the Appropriations Act, however, use by others than the agencies specifically named therein must await a clarifying interpretation from the appropriate source.



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